



Michigan Housing Commission Risk Retention Alliance

**Financial Report
with Additional Information
February 13, 2005**

99-7491

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Michigan Housing Commission Risk Retention Alliance

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Independent Auditors' Report

Board of Directors
Michigan Housing Commission Risk Retention Alliance

We have audited the balance sheet of Michigan Housing Commission Risk Retention Alliance as of February 13, 2005, and the related statements of operations and members' equity (deficit) and cash flows for the year then ended. These financial statements are the responsibility of the Alliance's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Michigan Housing Commission Risk Retention Alliance as of February 13, 2004 were audited by other auditors, whose report dated April 28, 2004 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2005 financial statements referred to above present fairly, in all material respects, the financial position of Michigan Housing Commission Risk Retention Alliance as of February 13, 2005, and the results of its operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

June 10, 2005

Michigan Housing Commission Risk Retention Alliance

Balance Sheet

	February 13	
	2005	2004
Assets		
Cash and cash equivalents	<u>\$ 30,608</u>	<u>\$ 3,155</u>
Liabilities and Members' Equity (Deficit)		
Liabilities - Accounts payable	\$ -	\$ 3,250
Members' Equity (Deficit)	<u>30,608</u>	<u>(95)</u>
Total liabilities and members' equity (deficit)	<u>\$ 30,608</u>	<u>\$ 3,155</u>

Michigan Housing Commission Risk Retention Alliance

Statement of Operations and Members' Equity (Deficit)

	Year Ended February 13	
	2005	2004
Revenue		
Member contributions	\$ 842,592	\$ 1,009,107
Interest income	<u>765</u>	<u>297</u>
Total revenue	843,357	1,009,404
Expenses		
Insurance premiums	779,734	974,407
Service fee	25,000	27,500
Loss prevention services	7,500	5,000
Administrative expenses:		
Legal and professional	-	2,703
Other	<u>420</u>	<u>532</u>
Total expenses	<u>812,654</u>	<u>1,010,142</u>
Excess of Revenue Over (Under) Expenditures	30,703	(738)
Members' Equity (Deficit) - Beginning of year	<u>(95)</u>	<u>643</u>
Members' Equity (Deficit) - End of year	<u>\$ 30,608</u>	<u>\$ (95)</u>

Michigan Housing Commission Risk Retention Alliance

Statement of Cash Flows

	Year Ended February 13	
	2005	2004
Cash Flows from Operating Activities		
Excess of revenue over (under) expenses	\$ 30,703	\$ (738)
Changes in assets and liabilities - Decrease in accounts payable	<u>(3,250)</u>	<u>-</u>
Net Increase (Decrease) in Cash and Cash Equivalents	27,453	(738)
Cash and Cash Equivalents - Beginning of year	<u>3,155</u>	<u>3,893</u>
Cash and Cash Equivalents - End of year	<u>\$ 30,608</u>	<u>\$ 3,155</u>

Michigan Housing Commission Risk Retention Alliance

Note to Financial Statements February 13, 2005 and 2004

Note - Nature of Entity and Significant Accounting Policies

The Michigan Housing Commission Risk Retention Alliance (the "Alliance") was established February 14, 1991 under the laws of the State of Michigan as a governmental group risk retention alliance. The Alliance provides insurance under which the members are covered for various types of risk including property, general liability, and directors' and officers' liability. Membership is open to all housing commissions in the State of Michigan, of which 31 participated in the Alliance. Effective on February 14, 2005, all members of the Alliance elected to cease coverage under the Alliance and it is anticipated the board of directors will proceed with dissolution of the Alliance during the year ended February 13, 2006.

The Alliance's general objectives were to provide risk management consisting of compensating members for losses, costs, and expenses related to the stated coverages, and to utilize the funds contributed by members to defend any member of the Alliance against stated liability or loss. Membership in the Alliance is considered after a formal request supported by a resolution from the members' governing board of the applying housing commission. Any member joining the Alliance shall remain a member for a minimum of three full years. A member may withdraw from the Alliance by giving written notice at least six months prior to the end of the Alliance's fiscal year.

The Alliance's underwriting and rate setting policies are established after consultation with excess insurance underwriters and actuaries. Members are given at least 30 days notice to make annual contributions to the pool. The annual contributions are based on a final budget approved by the board of directors. It is anticipated that to the extent the contributions finally are deemed to exceed claim losses and other costs, the excess amount will be refunded at some time in the future. The method for refunding such excess has not yet been determined.

Cash and Cash Equivalents - The Alliance considers all cash on deposit and short-term investments with a maturity of three months or less to be cash equivalents.

Excess Insurance Coverage - The Alliance maintains insurance coverage for payment of all claims incurred during the years ended February 13, 1995 through 2005.

Federal Income Tax Status - The Alliance is treated as a tax-exempt trust under Section 115 of the Internal Revenue Code. Accordingly, no provision for income taxes is reflected in the financial statements.

Michigan Housing Commission Risk Retention Alliance

Note to Financial Statements February 13, 2005 and 2004

Note - Nature of Entity and Significant Accounting Policies (Continued)

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Additional Information

To the Board of Directors
Michigan Housing Commission Risk Retention Alliance

We have audited the financial statements of Michigan Housing Commission Risk Retention Alliance for the year ended February 13, 2005. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional information on pages 9 and 10 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the procedures applied in the audit of the basic financial statements and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The schedule of operations by policy year on page 11 has been compiled from financial statements for each of the respective years shown in the schedule of operations by policy year. We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements for the policy years ended 1992 through 2000 and the year ended February 13, 2005, from which the data was derived. The financial statements for the policy years ended 2001 through 2004 from which the data was derived were audited by other auditors. In our opinion, the schedule of operations by policy year is fairly stated in all material respects in relation to the financial statements from which they have been derived.

Plante & Moran, PLLC

June 10, 2005

Michigan Housing Commission Risk Retention Alliance

Schedule of Claims Information for all Lines of Coverages

Claims Development Information

The table below illustrates how the Alliance's earned revenue (net of excess insurance) and investment income compare to related costs of loss (net of loss assumed by excess insurers) and other expenses assumed by the Alliance as of the end of each of the years since the Alliance's inception. The rows of the table are defined as follows: (1) this line shows the total of each fiscal year's earned contribution revenue and investment revenue; (2) this line shows each fiscal year's other operating costs of the Alliance including overhead and claims expense not allocable to individual claims; (3) this line shows the Alliance's incurred claims and allocated claim adjustment expense (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year); (4) this section shows the cumulative amounts paid as of the end of successive years for each policy year; (5) this section shows how each policy year's incurred claims increased or decreased as of the end of successive years. This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known; (6) this line compares the latest reestimated incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years matures, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years.

		Fiscal Year or Policy Year Ended February 13									
		2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
(1)	Earned contributions and interest revenue - Net of insurance premiums	\$ 62,858	\$ 34,997	\$ 18,723	\$ 29,204	\$ 34,165	\$ 14,871	\$ (1,341)	\$ 50,364	\$ 15,401	\$ 5,366
(2)	Unallocated expenses	25,420	35,735	36,010	29,678	31,920	22,748	33,645	34,983	16,910	10,249
(3)	Estimated incurred claims and expenses - End of policy year	-	-	-	-	-	-	-	-	-	-
(4)	Paid (cumulative) as of:										
	End of policy year	-	-	-	-	-	-	-	-	-	-
	One year later		-	-	-	-	-	-	-	-	-
	Two years later			-	-	-	-	-	-	-	-
	Three years later				-	-	-	-	-	-	-
	Four years later					-	-	-	-	-	-
	Five years later						-	-	-	-	-
	Six years later							-	-	-	-
	Seven years later								-	-	-
	Eight years later									-	-
	Nine years later										-
(5)	Reestimated incurred claims and expenses:										
	End of policy year	-	-	-	-	-	-	-	-	-	-
	One year later		-	-	-	-	-	-	-	-	-
	Two years later			-	-	-	-	-	-	-	-
	Three years later				-	-	-	-	-	-	-
	Four years later					-	-	-	-	-	-
	Five years later						-	-	-	-	-
	Six years later							-	-	-	-
	Seven years later								-	-	-
	Eight years later									-	-
	Nine years later										-
(6)	Increase (decrease) in estimated incurred claims from end of policy year	-	-	-	-	-	-	-	-	-	-

Michigan Housing Commission Risk Retention Alliance

Schedule of Operations by Policy Year Year Ended February 13, 2005

	Previous Years	Policy Year											Total
		1995/96	1996/97	1997/98	1998/99	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05		
Revenue													
Member contributions	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 842,592	\$ 842,592	
Interest income	403	-	-	134	-	-	-	-	-	-	228	765	
Total revenue	403	-	-	134	-	-	-	-	-	-	842,820	843,357	
Expenses													
Insurance premiums	-	-	-	-	-	-	-	-	-	-	779,734	779,734	
Service fee	-	-	-	-	-	-	-	-	-	-	32,500	32,500	
Administrative expenses:													
Legal and professional	-	-	-	-	-	-	-	-	-	-	-	-	
Other	-	-	-	-	-	-	-	-	-	-	420	420	
Total expenses	-	-	-	-	-	-	-	-	-	-	812,654	812,654	
Excess of Revenue Over (Under) Expenses	\$ 403	\$ -	\$ -	\$ 134	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 30,166	\$ 30,703	

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Schedule of Operations by Policy Year from Inception February 15, 1991 through February 13, 2005

	Previous Years	Policy Year										Total
		1995/96	1996/97	1997/98	1998/99	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05	
Revenue												
Member contributions	\$ 1,022,554	\$ 394,654	\$ 447,055	\$ 383,459	\$ 411,976	\$ 418,159	\$ 632,592	\$ 638,333	\$ 892,781	\$ 1,009,107	\$ 842,592	\$ 7,093,262
Interest income	15,467	103	55	2,899	-	-	-	32	-	-	228	18,784
Total revenue	1,038,021	394,757	447,110	386,358	411,976	418,159	632,592	638,365	892,781	1,009,107	842,820	7,112,046
Expenses												
Provision for claim payments	168,982	-	-	-	-	-	-	-	-	-	-	168,982
Insurance premiums	705,770	389,391	431,709	333,315	413,317	403,288	601,352	611,817	874,683	974,407	779,734	6,518,783
Service fee	122,791	2,593	10,500	26,950	24,170	15,250	20,500	25,250	32,500	32,500	32,500	345,504
Administrative expenses:												
Office	3,980	361	430	261	834	334	73	34	-	-	-	6,307
Legal and professional	16,788	3,685	4,500	5,050	5,274	5,375	8,500	3,007	2,967	2,703	-	57,849
Other	10,284	3,610	1,480	2,722	3,367	1,789	2,847	1,419	543	532	420	29,013
Total expenses	1,028,595	399,640	448,619	368,298	446,962	426,036	633,272	641,527	910,693	1,010,142	812,654	7,126,438
Excess of Revenue Over												
(Under) Expenses - Before extraordinary item	9,426	(4,883)	(1,509)	18,060	(34,986)	(7,877)	(680)	(3,162)	(17,912)	(1,035)	30,166	(14,392)
Extraordinary Item -												
Forgiveness of debt	45,000	-	-	-	-	-	-	-	-	-	-	45,000
Excess of Revenue Over												
(Under) Expenses	\$ 54,426	\$ (4,883)	\$ (1,509)	\$ 18,060	\$ (34,986)	\$ (7,877)	\$ (680)	\$ (3,162)	\$ (17,912)	\$ (1,035)	\$ 30,166	\$ 30,608